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January 30, 2003

Mr. Anthony J. Como
U.S. Department of Energy
Office of Fossil Energy
1000 Independence Avenue, SW
Washington, D.C. 20585-0350

**Re: ITC Holdings Corporation Limited Partnership, International
Transmission Company, and DTE Energy Company, Docket Nos. PP-
230-2 and PP-230-3, et al.
Comments of Ontario Independent Electricity Market Operator**

Dear Mr. Como,

Please accept for filing in the above-referenced matter an original and 14 copies of this transmittal letter and the attached **Comments of Ontario Independent Electricity Market Operator** in reference to Docket Nos. PP-230-2 and PP-230-3, et al.

If you have any questions, please contact me at (202) 298-1887. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to be "J. Buchovecky", written over a horizontal line.

John J. Buchovecky
Counsel for the Independent Electricity
Market Operator

**UNITED STATES OF AMERICA
BEFORE THE
DEPARTMENT OF ENERGY, OFFICE OF FOSSIL ENERGY**

International Transmission Company)	
ITC Holding Corp.)	Docket Nos. PP-230-2
DTE Energy Company)	and PP-230-3, et al.

**COMMENTS OF
ONTARIO INDEPENDENT ELECTRICITY MARKET OPERATOR**

I. INTRODUCTION

The Ontario Independent Electricity Market Operator ("IMO") respectfully submits the following comments in the above-captioned proceeding. On January 6, 2003, the International Transmission Company ("ITC"), ITC Holdings Corp ("ITC Holdings"), and DTE Energy Company ("DTE") (collectively, "Applicants") filed an application requesting the Department of Energy ("DOE") to take the following actions:

- (1) Rescind Presidential Permit 230-2 ("Permit") held by ITC covering certain transmission facilities that interconnect ITC's high voltage electrical transmission system with the transmission facilities owned by Hydro One located in the Province of Ontario, Canada. The proposed rescission would become effective upon the merger of ITC into a Michigan limited liability company which is wholly-owned by DTE;
- (2) Issue a Presidential Permit for the Interconnection Facilities to ITC's proposed successor, Newco LLC;¹ and
- (3) Reissue a Presidential Permit for the Interconnection Facilities to Newco LLC's corporate successor upon a subsequent merger of Newco LLC into ITC Holdings Merger Sub, Inc. ("Merger Sub"), a Michigan corporation wholly owned by ITC Holdings ("the Reconversion") following the financial closing of the proposed sale of Newco LLC by its corporate

¹ As of the date of this filing, the name of International Transmission Company's successor in interest has not yet been determined. Accordingly, for purposes of this filing, International Transmission Company's limited liability company successor is designated "Newco LLC."

parent, DTE Energy, to ITC Holdings.²

The IMO respectfully requests that DOE condition any approvals that may be issued upon a requirement that the four existing international electric transmission facilities that cross the U.S. – Canada border operate under the same terms and condition as are applicable under the current ownership.

II. COMMUNICATION

All communications, correspondence, and documents related to this proceeding should be directed to the following persons:

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III. COMMENTS

A. Description of the Ontario Independent Electricity Market Operator

The IMO is established under the Ontario *Electricity Act, 1998* (“Act”) to administer the Ontario wholesale power markets and to direct the operations and maintain the reliability of the IMO-controlled grid. The IMO is a non-profit, non-share capital corporation independent of all other market participants in the electricity industry. The IMO does not own any electric power generation facilities but it has operational control³ over the transmission and generation facilities,

² *International Transmission Company, ITC Holding Corp., DTE Energy Company*, PP-230-3 (2003).

³ Operational control includes: security monitoring, adjustment of generation and transmission resources, coordinating and approval of changes in transmission status for maintenance, determination of changes in transmission status for reliability, coordination with other control areas, and voltage reductions and load shedding.

including interconnections⁴ that are situated in Ontario, except for distribution systems operating at a nominal voltage of less than 50 kV. The roles of the IMO are established by legislation, Ontario Energy Board licence, and the Ontario Market Rules (“the Market Rules”), and include:

- (a) exercising and performing the powers and duties assigned to the IMO under the Act, the Market Rules and its license;
- (b) entering into agreements with transmitters giving the IMO authority to direct the operations of their transmission systems;
- (c) directing the operations and maintaining the reliability of the IMO-controlled grid to promote the purposes of the Act;
- (d) establishing and operating the IMO-administered markets to promote the purposes of the Act;
- (e) collecting and providing to the public information relating to the current and future electricity needs of Ontario and the capacity of the integrated power system to meet those needs;
- (f) participating in the development by any standards authority of standards and criteria relating to the reliability of transmission systems;
- (g) working with the responsible authorities outside Ontario to co-ordinate the IMO’s activities with their activities.

The IMO is the organization in Ontario responsible for establishing and administering wholesale markets and directing the operation of the integrated power system. Its responsibilities include a broad range of integrated operations, from operations planning, security assessment and scheduling, to real time co-ordination of the power system. The IMO Board of Directors is made up of independent as well as stakeholder members and has developed the Market Rules.

The Ontario electric transmission system operated by the IMO is interconnected with the United States electric transmission system at multiple locations along the U.S. – Canadian

⁴ Interconnection means the interconnection facilities owned by licensed transmission companies.

border.

The IMO's Transitional Licence issued by the Ontario Energy Board imposes upon the IMO obligations to maintain the security and reliability of the IMO-controlled transmission grid. The Market Rules govern the IMO-controlled grid and seek to establish efficient, competitive and reliable integrated markets for the sale and purchase of wholesale electricity. The IMO ensures compliance by market participants via the Market Rules. Several chapters of the Market Rules deal with reliability and security standards for transmission systems, including interconnections between the IMO-controlled grid and neighbouring transmission systems.

Section 57 of the Ontario Energy Board Act prohibits any person from directing the operation of a transmission system in Ontario unless licensed to do so pursuant to the Act. The IMO is so licensed. The Act also requires transmitters to enter into an agreement with the IMO that gives the IMO authority to direct the operations of the integrated transmission to help promote the purpose of the Act, including promoting non-discriminatory access to transmission and distribution systems in Ontario, economic efficiency in electricity generation, transmission and distribution, and protecting all consumers' interests with respect to prices, reliability and quality of electricity services.

The IMO has a vital interest in this proceeding that cannot be adequately represented by any other party to this proceeding. Having the obligation to direct the operation of a major electric transmission system interconnected with the ITC's transmission facility and with the United States electric transmission system, the IMO has a direct and substantial interest that may be directly affected by the outcome of this proceeding, including ensuring coordinated operation and reliability of cross-border power flows affecting both Canada and the United States. Other parties in this proceeding do not adequately represent the IMO's interest because it is the only

entity performing the transmission operator function for its system. For these reasons, the IMO's participation in the proceeding is in the public interest.

As an initial matter, the IMO notes that co-ordination and development of standard interconnection practices and requirements is an essential element of ensuring and enhancing greater reliability of and among interconnected electric systems. The IMO understands that the DOE does not establish specific interconnection standards. However, the DOE does review presidential permit applications for reliability impacts.

It has been DOE's policy to encourage mitigation of inadvertent loop flows to prevent one party from benefiting unfairly from the services provided by another party. Phase Shifter Controls have been, or are being, installed to mitigate that exact problem. In April 2001, DOE issued a Presidential Permit, PP-230-2, to Detroit Edison to allow the installation of an autotransformer on one of the existing international transmission lines and the installation of a phase-shifting transformer on the second line, which were to be operated and maintained in the manner outlined in the Permit.⁵

The application filed in this proceeding before DOE by the Applicants raises important issues with respect to parallel path flows and consequently reliability of the electric system. In its application, the Applicants are seeking to transfer Presidential Permit PP-230-2 from ITC to a new corporate entity that will be created following a series of corporate restructurings. The Applicants stated that the purpose of their filing is to administratively conform the relevant Permit to the new ownership arrangements outlined and to ensure the provisions contained in the

⁵ Permit PP-230-2 amended an earlier permit, PP-221, which authorized installation of the autotransformer but deferred a decision on installation of the phase-shifting transformer pending receipt of appropriate technical studies demonstrating the operation of the regional interconnected electric system with the phase-shifter in service.

Permit authorizing the interconnection, maintenance and operation of certain specified electric transmission facilities located at the U.S.-Canadian border remain in effect during the voluntary transfer of these facilities. However, the Applicants did not specifically request that the DOE grant the new permit *on the same terms and conditions* as the current Permit. In this regard, the IMO notes that in the Applicants' Joint Application to the Federal Energy Regulatory Commission seeking approval of disposition of facilities, Applicants state that "[t]ransfer of operation of the PARs operations is intended to help promote competition in regional and cross-border wholesale electric power markets."⁶ It is not clear how this stated intent of the Applicants is necessarily consistent with the original permit's terms and conditions, and the IMO is so far not aware of any express undertaking by the Applicants to abide by the existing terms and conditions.

To further DOE's policy of rationalizing existing loop flow problems, the IMO seeks to ensure that the four existing international electric transmission facilities, including the phase shifting transformer in the B3N circuit, that cross the U.S. – Canada border, will continue to be operated in accordance with all the terms and conditions contained in Presidential Permit PP-230-2.

IV. RELIEF REQUESTED

The IMO has no objection to the ownership transfer requested by the Applicants so long as operation of facilities remains as specified in the previous permit. Therefore, the IMO respectfully requests that DOE condition any approvals that may be issued to the Applicants upon a requirement that Newco LLC's corporate successor continue to operate the four existing

⁶ *ITC Holdings Corp., et al.*, Joint Application for Approval of Disposition of Jurisdictional Facilities, FERC Docket No. EC03-40-000 and ER03-343-000 (Dec. 24, 2002).

international electric transmission facilities, including the phase shifting transformer in the B3N circuit, that cross the U.S. – Canada border under the same terms and condition as are currently applicable to their operation under the current ownership.

WHEREFORE, for these reasons, the IMO submits that in reviewing and approving the Applicant's request for a Presidential Permit, the DOE should: (i) require compliance with existing and future interconnection standards, operating rules, and other requirements established by any body having oversight of system reliability; and (ii) incorporate in any approval of this permit application, the same terms and conditions as in the prior permit, including the previously agreed upon operational parameters for the Phase Shifter Controls.

Respectfully Submitted,

Handwritten signature of George Katsuras in black ink, followed by a stylized monogram.

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January 30th, 2003

cc: